S & L Vitamins, Inc. v. Australian Gold, Inc. Doc. 37

Francis J. Earley (FE-7520)
MINTZ, LEVIN, COHN, FERRIS,
GLOVSKY and POPEO, P.C.
666 Third Avenue
New York, New York 10017
(212) 935-3000

ATTORNEYS FOR AUSTRALIAN GOLD, INC.

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

S & L VITAMINS, INC., Plaintiff/Counterclaim Defendant, v. AUSTRALIAN GOLD, INC., Defendant/Counterclaim Plaintiff.	:	05 CV 1217 (JS)(ML)
AUSTRALIAN GOLD, INC., Third Party Plaintiff, v. LARRY SAGARIN AND JOHN DOES, 1-10, Third Party Defendants,	:	

AUSTRALIAN GOLD'S MEMORANDUM OF LAW IN OPPOSITION TO S&L VITAMINS' MOTION TO DISMISS THE AMENDED COUNTERCLAIMS AND AMENDED THIRD-PARTY COMPLAINT AND FOR DECLARATORY JUDGMENT ON THE PLEADINGS

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I. INTRODUCTION AND BACKGROUND

In a race to the courthouse, S & L Vitamins, Inc. ("S & L Vitamins") filed a lawsuit against Australian Gold, Inc. ("Australian Gold") in New York seeking declaratory judgment that its activities did not constitute trademark infringement or interference with Australian Gold's contracts with its distributors. S & L Vitamins and Sagarin operate internet websites, www.thesupplenet.com and www.bodysourceonline.com, that sell Australian Gold's products to the general public. S & L Vitamins and Sagarin have developed a scheme to surreptitiously obtain the products. Australian Gold believes that S & L Vitamins and Sagarin are conspiring with one or more of its distributors, or through a straw man posing as a legitimate tanning salon, to obtain these products and sell them on the internet.

Rather than filing a separate suit in federal court in Indiana, Australian Gold counterclaimed against S & L Vitamins and filed suit against Sagarin[1] alleging that their actions constituted trademark infringement, unfair competition and tortious interference, among other claims. Activities which Australian Gold seeks to stop include: (1) the display of photographs with one of S & L Vitamins' assumed business names and logo superimposed over Australian Gold's products, falsely drawing an affiliation, sponsorship or endorsement between Australian Gold and S & L Vitamins; (2) the use of Australian Gold's goodwill and brand recognition to promote S & L Vitamins' business; (3) the use of Australian Gold's intellectual property, including its trademarks, on S & L Vitamins' website source code, known as a metatag, to divert internet browsers to the websites to sell not only Australian Gold's products, but products of competitors; (4) bidding on Australian Gold's trademark with a "pay for placement" service on

[1] Australian Gold shall refer to its Amende Counterclaims and the Amended Third-Party Complaint filed against Sagarin collectively as the "Claims".

yahoo.com, which ensures that their website is listed at or near the top of any search result conducted by an internet user searching for these products; and (5) interference with Australian Gold's Distributorship Agreements and distribution system, including sales of products not manufactured and marketed for sale outside of the United States into European markets.

Australian Gold is a leading manufacturer of premium tanning lotions used in the indoor tanning industry. Australian Gold is the manufacturer of Australian Gold®, Caribbean Gold® and Swedish Beauty® tanning lotions and owns the intellectual property associated with those brands, including all related trademarks and copyrights. Australian Gold permits the sale of its products only to tanning salons. Internet sales and sales in non-tanning salon retail outlets are prohibited.

To protect the reputation and safety of its products,[2] Australian Gold has a closed distribution system, distributing the products though authorized distributors, all of whom have entered into a distributorship agreement with Australian Gold. (hereafter "Distributorship Agreement"). The Distributorship Agreements prohibit the sale of products to any customer that is not a tanning salon or a hair and beauty salon that offers indoor tanning and instruction on the use of the products as an on premise service. Australian Gold, in cooperation with its distributors, has aggressively identified and stopped product diversion to non-tanning salon customers, including internet diversion.

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[2] Fifty to sixty percent of the 25,000 tanning salons in the United States carry either Australian Gold®, Swedish Beauty® or Caribbean Gold® products. Australian Gold manufactures and sells approximately 80 different tanning lotions which vary in their use and purpose. Proper instruction and training on the use of the Products is paramount to the consumer receiving a safe and satisfying tanning experience. If a person with the wrong skin type or a novice tanner uses the wrong product (such as Australian Gold's "tingle" product, a lotion that contains a skin irritant designed to increase blood flow and enhance the tanning process) it could create an adverse physical reaction affecting both the consumer and Australian Gold's reputation in the marketplace. To ensure that its products are used properly and in a safe manner, Australian Gold places a significant emphasis on training. In a typical year, Australian Gold trains over 30,000 employees, salon owners and managers in 600 presentations on the proper use of its products.

As demonstrated below, whether the conduct of S & L Vitamins and Sagarin rises to the level of trademark infringement, unfair competition, tortious interference with contract, and other related claims, requires the resolution of numerous factual issues which cannot be decided on a motion to dismiss. Australian Gold is entitled to its day in court to challenge these activities. Thus, the Motion to Dismiss and for judgment on the pleadings should be denied.

II. ARGUMENT

A. Legal Standard for Motion to Dismiss.

A motion to dismiss counterclaims is governed by the same standard for determining a motion to dismiss under Rule 12(b)(6) for failure to state a claim upon which relief can be granted.[3] *Excellus Health Plan, Inc. v. Tran,* 287 F. Supp. 2d 167, 171 (W.D.N.Y 2003); *Wells Fargo Bank Northwest, N.A. v. Taca Int'l Airlines, S.A.,* 247 F. Supp. 2d 352, 363 (S.D.N.Y. 2002). Under that standard, Australian Gold's Claims can be dismissed only if it "appears beyond doubt that [Australian Gold] can prove no set of facts in support of [its] claim that would entitle [it] to relief." *Steinmetz v. Toyota Motor Credit Corp.,* 963 F. Supp. 1294, 1298 (E.D.N.Y. 1997)(quoting *Conley v. Gibson*, 355 U.S. 41, 45-46 (1957)). The court must liberally construe the counterclaims and all factual allegations must be taken as true. *Excellus,* 287 F. Supp. 2d at 171; *Steinmetz,* 963 F.Supp. at 1298. Further, all reasonable inferences must be drawn in favor of Australian Gold. *Excellus,* 287 F. Supp. 2d at 171; *Bolt Elec., Inc. v. The City of New York,* 53 F.3d 465, 469 (2d Cir. 1995).

The function of the court is not to weigh evidence, but to consider the legal sufficiency of the claims. *Excellus,* 287 F. Supp. 2d at 172. As demonstrated below, there are many factual questions which preclude the entry of dismissal. *See eg. United States v. Yonkers Bd. of Educ.*, 893 F.2d 498, 502 (2d Cir. 1990)(denying motion to dismiss which raised factual questions that could not be resolved solely by reference to the pleadings); *D.C. Comics v. Kryptonite Corp.*, 336 F. Supp. 2d 324, 333 (S.D.N.Y. 2004)(summary judgment inappropriate because of numerous issues of fact regarding likelihood of confusion and trademark infringement, unfair competition, trademark dilution and related state law claims).

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[3] Although technically a motion for judgment on the pleadings pursuant to F.R.C.P. 12(c) because the pleadings have been closed, S & L Vitamins and Sagarin have called their motion a motion to dismiss pursuant to F.R.C.P. 12(b)(6).

B. Australian Gold has Stated Claims for Trademark Infringement and Unfair Competition.[4]

Dismissal of Australian Gold's trademark infringement and unfair competition claims under either Rule 12(b)(6) or Rule 12(c) is improper. First, the first sale doctrine, the basis for S & L Vitamins' Motion to Dismiss, does not apply to this case. The Claims irrefutably allege that S & L Vitamins and Sagarin have done more than stock, display and sell Australian Gold's products. Even under the cases relied on by S & L Vitamins and Sagarin, when one's activities go beyond displaying, stocking and reselling genuine products, the first sale doctrine does not apply and liability for trademark infringement and unfair competition may be imposed. Second, numerous factual questions preclude dismissal. Those factual issues include: (1) the extent and scope of S & L Vitamins' and Sagarin's use of the trademarks; (2) the manner in which the products were obtained; (3) the manner in which S & L Vitamins and Sagarin have promoted the products on the internet, including the display of Australian Gold's products; (4) whether there is a likelihood of confusion as to the affiliation, sponsorship or association between Australian Gold and S & L Vitamins; and (5) whether the products are truly "genuine" because they are (a) not sold in accordance with quality control measures instituted by Australian Gold and (b) are

[4] Australian Gold's federal trademark infringement and unfair competition claims consist of Counts I, II and III of the Claims.

sold in European markets despite, not complying with labeling requirements for foreign jurisdictions. These issues must be litigated and resolved by a jury.

1. The First Sale Doctrine is Inapplicable.

S & L Vitamins' and Sagarin's reliance on the first sale doctrine is misplaced. Under the first sale doctrine, "a purchaser who does no more than stock, display, and resell a product . . . violates no right conferred upon the producer by the Lanham Act." *Sebastian Int'l., Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1076 (9th Cir. 1995); *see also Playboy Enters. v. Netscape Comm. Corp.*, 354 F.3d 1020, 1025-26 (9th Cir. 2004)(diversion to competitor's website is actionable use of trademark); *Eli Lily & Co. v. Natural Answers, Inc.*, 233 F.3d 456, 465 (7th Cir. 2000). Conduct beyond the mere resale of trademarked goods, however, can support a Lanham Act violation. *Sebastian*, 53 F.3d at 1076);[5] *Bandag, Inc. v. Al Bolser's Tire Stores*, 750 F.2d 903 (Fed. Cir. 1984); (advertised in a manner that suggested that defendants were affiliated with plaintiff, thus giving rise to Lanham Act Claim); *Stormor v. Johnson*, 587 F. Supp. 275 (W.D. Mich. 1984).

As discussed in greater detail in the Claims, Australian Gold has sufficiently pled these causes of action. The relevant allegations contained in the Claims with respect to trademark infringement and unfair competition are as follows:

> 33. Upon information and belief, **S & L Vitamins and Sagarin have paid to use Australian Gold's intellectual property, including its Marks, on Yahoo! for the express purpose of directing internet traffic to www.thesupplenet.com.**
>
> 34. S & L Vitamins' website is identified in the "Sponsor Results" on Yahoo! for the search term "Australian Gold." Its website is listed near the top of

[5] S & L Vitamins and Sagarin cited to this case in their brief. Yet its holding only confirms that violations of the Lanham Act can occur even where genuine goods are sold and that dismissal of the claims at this stage would not be proper because there are facts that would support these claims.

the webpage under "Sponsor Results." (See webpage from Yahoo! Shopping searching for "Australian Gold," attached hereto as *Exhibit D*).

35. S & L Vitamins' website also is identified in the "Sponsor Results" on Yahoo! for the search term "Swedish Beauty." Its website is again listed near the top of the webpage under "Sponsor Results." (See webpage from Yahoo! Shopping searching for "Swedish Beauty," attached hereto as *Exhibit E*).

36. S & L Vitamins and Sagarin are using Australian Gold's intellectual property on the www.thesupplenet.com and through Yahoo! to sell tanning lotions that directly compete with Australian Gold's Products.

37. At relevant times to this lawsuit, **S & L Vitamins and Sagarin used Australian Gold's intellectual property, including its Marks, in the html source code**, or metatags, **on the website.**

38. The use of Australian Gold's Marks was to benefit and profit from the goodwill associated with Australian Gold's business and its brand names.

39. At relevant times to this lawsuit, S & L Vitamins and Sagarin advertised and displayed the Products for sale on its website using Australian Gold's artwork and Product description. Each Product was sold on the website by displaying a photograph and a description of the Product.

40. At certain times relevant to this lawsuit, upon information and belief, **the photographs of the Products and the descriptions were "cut and pasted" from Australian Gold's websites without permission from Australian Gold by S&L Vitamins, Sagarin, and/or one of their employees or agents.** A true and correct sample of some of the photographs and descriptions misappropriated from Australian Gold's websites is attached hereto as *Exhibit F.*

41. To confuse and mislead even further, S & L Vitamins and Sagarin changed how the website displayed the Products. **S & L Vitamins currently displays their own photographs of the Products and falsely draws an association and affiliation between the Products, Australian Gold and S & L Vitamins. Each photograph of the Product has the text "BodySourceOnLine.com" and the "Body Source" name and logo superimposed over the photographs, giving the false impression that S & L Vitamins is either an authorized reseller of the Products or that it is affiliated with, sponsored or endorsed by Australian Gold.** True and correct copies of sample pages from the website and the artwork are attached hereto as *Exhibit G.*

> 47. S & L Vitamins and Sagarin are selling Australian Gold's U.S. Products overseas in Europe, despite the U.S. Products not comporting with European laws concerning the labeling and sizing requirements for these products. Therefore, S & L Vitamins and Sagarin are not selling genuine Products to buyers in Europe and abroad.
>
> 54. S & L Vitamins and Sagarin are selling U.S. Products outside of the United States. Australian Gold's U.S. Products are not suitable for sale outside the United States because, among other things, these products do not comply with foreign laws concerning the labeling and sizing requirements for the Products. Thus, the Products sold by S & L Vitamins and Sagarin outside of the United States are not distributed in accordance with Australian Gold's quality control guidelines or in compliance with foreign laws.

(Claims ¶¶33-41, 47, 54 (emphasis added)).

In *D 56, Inc. v. Berry's Inc.*, 955 F.Supp. 908 (N.D. Ill. 1997), a case factually similar to the one at hand, D 56 filed suit against Berry's for trademark infringement. D 56 distributed and marketed high-quality model products that were sold only to authorized dealers who entered into certain restrictions regarding the sale and distribution of the products. Berry's, not an authorized dealer of D 56, purchased the products from unknown companies who were authorized dealers of D 56. Berry's used D 56's marketing materials, including store display signs, as promotional tools. Berry's also displayed signs bearing D 56's trademark in their store and on their store front and featured the model products using signs bearing D 56's trademark. *D56*, 955 F.Supp. at 910-911. The defendants argued that the first sale doctrine applied because they were simply reselling genuine D 56 products. *Id* at 919. The court held that the resale of genuine products "did not shield them from charges of trademark infringement where they use plaintiff's trademark and promotional materials in their displays and advertising." *Id.* at 920.

The pervasive use of the Australian Gold's trademarks on the internet is a form of advertising and promotion similar to *D 56.* The intentional act of using Australian Gold's trademarks in the metatags and with Yahoo constitutes more than merely displaying and stocking trademarked items. S & L Vitamins and Sagarin have used Australian Gold's trademarks to divert internet traffic to their websites. The Seventh Circuit analogized the use of another's trademark in a metatag as "like posting a sign with another's trademark in front of one's store." *Eli Lily & Co.*, 233 F.3d at 465. Here, the overt act of using the trademarks on the websites in the html source code and on Yahoo reaches far beyond merely stocking and selling products. Manipulating photographs by superimposing one's own logo over pictures of Australian Gold's products creates a factual issue as to whether there is a likelihood of confusion, which the jury must decide.

2. S & L Vitamins and Sagarin Cite to No Case Supporting Dismissal of Lanham Act Claims on a Rule 12(b)(6) Motion.

S & L Vitamins and Sagarin cite no legal authority why the claims for trademark infringement and unfair competition should be dismissed on a facial review of the pleadings. All the cases cited to by S & L Vitamins and Sagarin prove that dismissal at this stage of the litigation is entirely improper. They primarily rely on two district court cases, *Adobe Sys., Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086 (N.D. Cal. 2000) and *McDonald's Corp. v. Shop at Home, Inc.*, 82 F. Supp. 2d 801 (M.D. Tenn. 2000), for the proposition that the first sale doctrine mandates the dismissal of Australian Gold's trademark infringement and unfair competition claims. Both of those cases were decided at the summary judgment stage after evidence had been marshalled and submitted to the court. Further, S & L Vitamins and Sagarin failed to mention that in *Adobe* the defendant was previously found liable for copyright and trademark infringement for selling adulterated Adobe products, but on summary judgment Adobe failed to present evidence of how the defendant's activities of tampering with unadulterated product's packaging affected the quality of its product.

Unlike *Adobe,* in this case, there will be substantial evidence at trial discussing the quality control measures taken by Australian Gold to protect its products and ensure that they are used properly. The *McDonald's* case also undermines S & L Vitamins' and Sagarin's position. Again, that case was decided on a summary judgment *after* McDonald's obtained a preliminary injunction. *Taylor Made Golf Co., Inc. v. MJT Consulting Group, LLC,* 265 F. Supp. 2d 732 (N.D. Tex. 2003), a third case relied upon by S & L Vitamins and Sagarin, was also decided at the summary judgment stage.

3. There is a Factual Issue Whether the Australian Gold Products are Genuine.

The Second Circuit recognizes claims for trademark infringement and unfair competition even when the defendant claims to be selling genuine goods but fails to follow quality control standards. In *El Greco Leather Prods. Co. v. Shoe World, Inc.,* 806 F.2d 392 (2d Cir. 1986), the Second Circuit held that one of "the most valuable and important protections afforded by the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder's trademark." *El Greco*, 806 F.2d at 395. In *El Greco*, when a certificate of inspection was an integral part of plaintiff's quality control effort, resale without the certificate of inspection infringed upon the trademark. *Id.* at 395. Likewise, in *Shell Oil, Co. v. Commercial Petroleum, Inc.,* 928 F.2d 104, 107 (4th Cir. 1991), the defendant infringed upon Shell's trademark by marketing bulk oil according to its own, and not Shell's quality control standards. *See also, Aldolf Coors, Co. v. A. Genderson & Sons, Inc.*, 46 F. Supp. 131, 135-36 (D. Colo. 1980)(distribution of Coors beer without regard to quality control measures constituted trademark infringement under the Lanham Act).

S & L Vitamins and Sagarin ask this Court to simply to assume that they are selling genuine products. This is an assumption that the law does not allow the Court to take. There are factual questions concerning the acquisition, marketing and sale of the Products, including the proper training and instruction on the use of the products. First, S&L Vitamins and Sagarin are selling products manufactured for sale in the United States into European Markets, despite the products not complying with foreign laws regarding bottling and labeling.

Second, the products are not truly genuine because they are sold over the internet and not in a face to face transaction where the consumer can receive the necessary training of the products to ensure that they are used properly. The Claims plead in detail allegations surrounding the importance of proper training, Australian Gold's efforts to train its distributors and tanning salons, and the contractual requirements of all distributors regarding training. (Claims ¶¶ 14, 15, 17, 24, 25).

The purpose of these actions are: (1) to ensure that the end users of the products have received proper instruction and training on the use of the products; (2) to ensure that the end user receives face-to-face consultation with a trained sales person to match the correct product with the person's skin type and tanning objectives; (3) to ensure that the products are used in a safe and proper manner; and (4) to protect the reputation and perception of the products as premium products available only in tanning salons. (Claims ¶¶16, 17).

Sales over the internet are nameless and faceless transactions where none of the proper instruction and training on the use of the Products is achieved. Issues of whether the quality control standards and the integrity of the products have been maintained are factual in nature and can only be resolved after the parties have engaged in discovery. It would be improper for the Court to make the assumption that the Products were "genuine" based upon S & L Vitamins' allegations in the pleadings. This issue must be resolved based upon the facts of the case and not on a Rule 12(b)(6) motion.

4. The Nominative Fair Use Doctrine Does Not Apply to the Facts of this Case.

S & L Vitamins and Sagarin's reliance on the nominative fair use doctrine as an absolute bar to Australian Gold's trademark infringement and unfair competition claims is misplaced. S & L Vitamins and Sagarin contend that "all that S & L Vitamins did with respect to Defendant's trademarks" was "to use someone else's trademark to refer legitimately to that person's goods." (Brief at p.10). However, that very statement raises a factual question which precludes the entry of dismissal. As Australian Gold has alleged, S & L Vitamins and Sagarin have done much more than simply refer to Australian Gold's trademarks, including (1) using the trademarks in the html source code, known as metatags; (2) using the trademarks with Yahoo's pay for placement internet search service; and (3) manipulating photographs and superimposing their own name and website address over Australian Gold's products. (Claims ¶¶ 31-37, 40, 41). These activities raise numerous factual issues which make a motion to dismiss improper.

Further, these actions support claims for trademark infringement and unfair competition under the Lanham Act under the doctrine of initial interest confusion. Although few courts in the country have addressed initial interest confusion in the context of the internet,[6] a series of cases in the Ninth Circuit expressly authorize trademark infringement and unfair competition claims under the Lanham Act based upon the unauthorized use of trademarks to divert internet traffic on another's goodwill. *See eg., Nissan Motor Co. v. Nissan Computer Corp.,* 378 F.3d 1002 (9th Cir. 2004); *Playboy Enters. v. Netscape Comm. Corp.,* 354 F.3d 1020, 1025-26 (9th Cir. 2004)[7]; *Horphag Research Ltd v. Pellegrini,* 337 F.3d 1036, 1040 (9th Cir. 2003), *cert.*

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[6] Australian Gold has previously litigated this same issue and won in the United States District Court for the Western District of Oklahoma, successfully defeating a motion to dismiss, a motion for summary judgment, and a motion for judgment on the evidence, and ultimately received a substantial jury verdict in its favor. The case is currently fully briefed and awaiting a decision from the Tenth Circuit Court of Appeals.

[7] S & L Vitamins and Sagarin relied upon this case as well.

denied, 124 S.Ct. 1090 (2004); *Brookfield Communications, Inc. v. West Coast Enter. Corp.*, 174 F.3d 1036, 1064 (9th Cir. 1999). Initial interest confusion occurs where the defendant uses the plaintiff's trademark in a manner calculated to capture the initial consumer attention and divert the consumer to its own website. *Nissan,* 378 F.3d at 1018. Because initial interest confusion impermissibly capitalizes on the goodwill associated with the trademark, it is actionable under the Lanham Act. *Nissan,* 378 F.3d at 1018; *Playboy,* 354 F.3d at 1025.

In *Brookfield*, West Coast used the trademarked term "movie buff.com" in its website's metatags to divert consumers who were looking for the Plaintiff's "movie buff" products. The court noted that although there was no confusion "in the sense that consumers know they [were] patronizing West Coast rather than Brookfield, there [was] nevertheless initial interest confusion in the sense that, by using 'movie buff.com' or 'MovieBuff" to divert people looking for 'MovieBuff' to its website, West Coast improperly benefited from the goodwill that Brookfield developed in its mark." *Brookfield*, 174 F.3d at 1062. The court held that, as a matter of law, initial interest confusion was proof of likelihood of confusion and thus actionable under the Lanham Act. *Id.* at 1065.

The Ninth Circuit revisited initial interest confusion in two cases decided in 2004, both reaffirming *Brookfield.* In *Playboy,* the Ninth Circuit affirmed that initial interest confusion is a viable cause of action under the Lanham Act, noting that through initial consumer confusion the competitor gains customers by misappropriating the goodwill of the trademark owner. *Playboy*, 354 F.3d at 1025, 1029. In *Nissan Motor Co.*, the Ninth Circuit again held that initial interest confusion established likelihood of confusion. *Nissan*, 378 F.3d at 1018-1019. The Nissan Computer Company, a company unrelated to the well-known Nissan Motor Company, traded on the goodwill of Nissan Motor by offering links to automobile related websites on its www.nissan.com website. Although Nissan Computer did not sell or manufacture automobiles, and was not a direct competitor of the automobile manufacturer, it offered information about automobiles and thus the Ninth Circuit held that it capitalized on the consumers initial interest in Nissan automobiles. *Id.* at 1019. The Ninth Circuit held that Nissan Computer infringed on Nissan Motors' trademark and was thus liable under the Lanham Act. *Id.* at 1019.

As S & L Vitamins and Sagarin recognize a nominative use, by definition, "refers to the trademark holder's product. It does not create an improper association in consumer's minds between an new product and the trademark holder's mark." (Brief at p.15, citing *Playboy*, 279, F.3d. at 806). If S & L Vitamins and Sagarin were merely selling genuine goods and nothing more, perhaps their argument would ring true. However, this case involves activities much more than merely using the trademark to sell the products. As evidenced by their own website, S & L Vitamins and Sagarin have manipulated photographs to falsely draw an association between Australian Gold and S & L Vitamins and Sagarin. (Claims ¶¶ 40, 41). S & L Vitamins and Sagarin have flooded their website with the Plaintiff's trademarks, both through the manipulation of photographs and through the placement of the trademarked names "Australian Gold" and "Swedish Beauty" in the website's metatag and on Yahoo's pay for placement service. (Claims ¶¶ 31-37). These activities are likely to cause confusion as to the affiliation, sponsorship or association between Australian Gold and S & L Vitamins and Sagarin. These intentional acts are also much more than merely displaying and stocking trademarked items, as was the case in *Sebastian*. Therefore, for this additional reason, the first sale and nominative use doctrines are further inapplicable because S & L Vitamins and Sagarin have done much more. At the very least, these are factual issues that must be decided by the trier of fact. Australian Gold is entitled to its day in court to prove its claims.

C. Australian Gold's State Law Trademark Infringement and Unfair Competition Claims are Valid.

S & L Vitamins and Sagarin concede that the state law trademark infringement and unfair competition claims rise or fall with the federal claims. For the same reasons discussed above in Section B, Australian Gold's state trademark infringement and unfair competition claim, Count VII, is valid and must survive the Motion to Dismiss.

D. Australian Gold has Stated Valid Claims for Tortious Interference with Contract and Tortious Interference with the Prospective Economic Advantage.

The Claims sufficiently pled causes of action for tortious interference with contract and tortious interference with prospective economic advantage.[8] Under New York law, the elements of a claim for tortious interference with contract are:

(1) the existence of a valid contract;

(2) the tortfeasor's knowledge of the contract and intentional interference with it; and

(3) the resulting breach and damages.

Loftus, Inc. v. White, 150 A.D. 2d 857, 859; *Hoag v. Chancellor, Inc.,* 677 N.Y.S. 2d 531, 533 (1998). A claim for tortious interference with prospective economic advantage requires a showing that the defendant's interference with the business relations was accomplished by wrongful means or with the sole purpose to harm Australian Gold. *Techcon Contracting, Inc. v. Village of Lynbrook*, 2004 WL 2339796, *2 (N.Y.Sup. 2004).[9]

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[8] Counts IV and V of the Claims.

[9] In their brief, S & L Vitamins and Sagarin never addressed the merits of the argument that this claim should be dismissed, but only addressed the tortious interference with contract claim. Australian Gold has sufficiently alleged tortious interference with prospective advantage and thus that claim should not be dismissed either.

The Claims allege: (1) that Australian Gold had a contractual relationship with which there was interference (Claims at ¶¶13, 19-24, 43, 44, 73-75); (2) that S & L Vitamins and Sagarin had knowledge of the contract (Claims ¶¶ 26, 45, 46, and 72); (3) that S & L Vitamins and Sagarin induced the breach of the contract (Claims ¶¶ 45, 46 and 73); and (4) Australian Gold sustained damages as a result of their actions. (Claims ¶¶ 77 and 81-82).

1. The Claims sufficiently pled the existence of valid and enforceable contracts.

S & L Vitamins and Sagarin apparently concede the existence of a valid and enforceable contract as they do not dispute its existence. The Claims set forth in detail the terms and conditions of the Distributorship Agreements between Australian Gold and its authorized distributors. The Claims alleged that Australian Gold requires "all of its authorized distributors" to enter into the Distributorship Agreements. (Claims ¶19). The specific prohibition at issue here—sales to non-tanning salon customers—is clearly set forth. (Claims ¶22).

S & L Vitamins and Sagarin fault Australian Gold for not naming the distributor that sold them products as a defendant in this lawsuit. However, S & L Vitamins and Sagarin have protected the distributor's identity. In the Complaint filed by S & L Vitamins, it conspicuously failed to identify the name of its source so that this information could be verified. Again, S & L Vitamins and Sagarin have kept their activities and the person with whom they have dealt secret. Only after this Court ordered the disclosures of its suppliers was this information disclosed. Australian Gold, however, has not had any opportunity to verify the accuracy or completeness of this disclosure. In any event, these disclosures are not dispositive for purposes of this motion and the Claims clearly allege that all authorized distributors are required to sign the Distributorship Agreement and that all authorized distributors are under the same prohibition and restrictions concerning the sale of product. (Claims ¶¶13, 17 and 19).

2. S & L Vitamins and Sagarin had knowledge of the Distributorship Agreements.

It cannot be seriously disputed that S & L Vitamins and Sagarin had knowledge of the existence of the Distributorship Agreements. Australian Gold has alleged this fact several times in its Claims, facts which must be taken as true for purposes of a Motion to Dismiss. (Claims ¶¶45, 46 and 72).

In the Complaint filed by S & L Vitamins, S & L Vitamins all but concedes that it had knowledge of the existence of the contracts and even attached correspondence between counsel concerning Australian Gold's contracts. The very purpose of its lawsuit was to seek declaratory judgment that it was not interfering with Australian Gold's contractual relationships. Thus, to claim that they did not have knowledge of the Distributorship Agreements and the restrictions contained therein would be disingenuous to say the least.

S & L Vitamins and Sagarin rely on two cases, *John Paul Mitchell Sys. v. Quality King Distrib., Inc.*, 106 F. Supp. 2d 462 (S.D. N.Y. 2000) and *Matrix Essentials, Inc. v. Cosmetic Gallery, Inc.*, 870 F. Supp. 1237 (D.N.J. 1994), for the proposition that it "is not enough to allege a defendant's merely general knowledge of alleged existence of a distributorship agreement between a plaintiff and a third party." (Brief at ¶18). Those cases do not mandate dismissal of these claims as S & L Vitamins and Sagarin would suggest. *John Paul Mitchell* was decided on a motion for preliminary injunction, not a motion to dismiss. That case is also factually distinct. For example, Quality King's representatives testified that they did not have knowledge of the contracts and that they did not recall receiving letters from John Paul Mitchell putting them on notice of the existence of contracts. The court speculated that John Paul Mitchell would have difficulty proving that Quality King had knowledge of John Paul Mitchell's contract with the Chinese distributor, but specifically declined to resolve that issue at the preliminary injunction stage. *John Paul Mitchell*, 106 F. Supp. 2d at 476. The case was not dismissed.

The *Matrix* case was decided after a 7 day bench trial where both parties had the opportunity to present evidence in support of their claims and defenses. In that case, the plaintiff failed to present evidence that the defendants were aware of the anti-diversion clauses in the contracts (which is not the case here) and the court refused to equate general knowledge of the distribution scheme with knowledge of the specific contract provisions. *Matrix*, 870 F.Supp. at 1247.

As both the *John Paul Mitchell* and *Matrix* cases make clear, claims of this nature typically involve factual disputes which must be litigated. While the court questioned John Paul Mitchell's ability to prove knowledge of the existence of the contract at the preliminary injunction stage, it did not dismiss the claims. Likewise, in *Matrix*, the court conducted a 7 day bench trial in which *Matrix* had the opportunity to present knowledge of the contracts. Again, it disingenuous for S&L Vitamins to state that it did not know of Australian Gold's contracts when it has moved for declaratory judgment that it was not interfering with Australian Gold's contractual relationships. These issues must be litigated and should not be summarily dismissed without Australian Gold having its day in court and an opportunity to prove its claims.

3. The Claims sufficiently allege that S & L Vitamins and Sagarin induced the breach of Australian Gold's Distributorship Agreements.

Erroneously, S & L Vitamins and Sagarin stated that "the complaint [sic] does not even allege that there was any **inducement** by S & L Vitamins to a party to that contract." In at least three places, the Claims specifically allege that S & L Vitamins and Sagarin induced the breach of the Distributorship Agreements. Australian Gold alleged that S & L Vitamins and Sagarin "have obtained the Products, directly or indirectly, from one or more authorized distributors of the Products." (Claims ¶43). In the next paragraph, Australian Gold alleged that S & L Vitamins and Sagarin have employed an unknown tanning salon, which may simply be a ruse, to "avoid suspicion and to induce authorized distributors to sell products to S & L Vitamins and Sagarin." (Claims ¶44) (emphasis added). Australian Gold alleged that "S & L Vitamins and Sagarin have intentionally induced unknown authorized distributors to breach the Distributorship Agreements with Australian Gold by ordering the Products from "John Doe" distributors and then selling the Products over the internet to the general public." (Claims ¶73). In the next paragraph, Australian Gold alleged that "S & L Vitamins and Sagarin are using false pretenses to induce authorized distributors to sell them Products." (Claims ¶74). Thus, this element has been pled.

4. Australian Gold Has Sustained Damages As A Result of S & L Vitamins' and Sagarin's Conduct.

Once again, S & L Vitamins and Sagarin mislead this Court by representing that the only allegation that Australian Gold sustained damage was "that S & L Vitamins sold its Products on the internet, which, is somehow presumed to be harmful." (Brief at ¶24). This is simply not true. Australian Gold specifically alleged that it had been damaged by the conduct of S & L Vitamins and Sagarin. (Claims ¶77, 81).

For example, Australian Gold alleged that its current distribution system has increased and enhanced its sales and reputation in the marketplace; sales have steadily increased over the years as the distributors have been streamlined and the distribution system enforced limiting sales to tanning salons. (Claims ¶18). Australian Gold also pled facts concerning the substantial amount of time and effort undertaken by it to train its distributors, salons and employees to preserve and protect its integrity of its distribution channels, including the extensive training and instruction to its distributors; and the pursuit of legal action against individuals and entities to enforce the restrictions regarding the distribution of products. (Claims ¶¶15-17; 22-26).

Moreover, S & L Vitamins and Sagarin cite no case which requires a claimant to specify with particularity the exact amount of damages it has suffered. There is simply no basis to dismiss a complaint because it does not specify the amount of damages that it is seeking. The amount of damages Australian Gold has sustained will be developed as the case progresses, as Australian Gold discovers the extent and harm that S & L Vitamins and Sagarin have caused to its distribution system. Therefore, Australian Gold alleged that it has suffered damages. For these reasons, the Claims should not be dismissed.

E. Australian Gold has Stated Claims Under New York's Consumer Protection Statutes.

Australian Gold has alleged that S & L Vitamins and Sagarin have violated N.Y. Gen. Bus. Law §§133, 349 and 350.[10] The essence of the motion to dismiss these claims is that Australian Gold "alleges no deception at all." (Brief, p.18). This statement is again inaccurate. Australian Gold specifically alleged certain acts which it contends gives rise to violations of these three statutes. In the Claims, Australian Gold pled:

> To confuse and mislead the public, S & L Vitamins and Sagarin currently display the Products with the text "BodySourceOnLine.com" and the "BodySource" name and logo superimposed over photographs of the Products, giving the false and misleading impression that S & L Vitamins is either an authorized seller of the Products or that it is affiliated with, sponsored or endorsed by Australian Gold.

(Claims ¶86). Australian Gold also alleged that these acts were done intentionally and with "the intent to deceive and mislead the public." (Claims ¶¶ 84, 90).

These specific allegations are sufficient to state a claim under the three statutes at issue. Australian Gold has identified the deceptive act, how the act was misleading in a material way

[10] Count VI of the Claims and Amended Third Party Complaint is the claim under N.Y. Gen. Bus. Law §§ 133 and 349. Australian Gold's false advertising claim under the Lanham Act, 15 U.S.C. §1125(a) and state law, N.Y. Gen. Bus. Law, §350, is set forth in Count VIII of the Claims and Amended Third Party Complaint, which also incorporates the previous allegations into that count.

and that the general public was or is likely to be injured by this false, misleading and deceptive advertising on the internet.

Section 349 of N.Y. Gen. Bus. Law provides that "deceptive acts or practices in the conduct of any business, trade, or commerce or in the furnishing of any service in this state are hereby declared unlawful." N.Y. Gen. Bus. Law §349 (McKinney 2005). Likewise, Section 350 deems false advertising in the conduct of any business, trade or commerce or the furnishing of any service to be unlawful. N.Y. Gen. Bus. Law §350 (McKinney 2005). Section 133 prohibits the use of a corporate assumed or trade name which may deceive or mislead the public as to the identity of such person, firm or corporation or as to the connection of such person, firm or corporation with any other such person. N.Y. Gen. Bus. Law §133 (McKinney 2005).[11]

The elements of a claim under Section 349 are:

(1) That the practice alleged was misleading in a material respect; and

(2) That the plaintiff was injured.

Steinmetz v. Toyota Motor Credit Corp., 963 F. Supp. 1294, 306 (E.D. N.Y. 1997); *Excellus Health Plan, Inc. v. Tran,* 287 F. Supp. 2d 167, 179 (W.D. N.Y. 2003)(noting that the act, practice or advertisement must be consumer-oriented).

In this case, the conduct in question is unequivocally consumer oriented. It is an advertisement placed upon S & L Vitamins' website, which is available throughout the world and specifically to consumers who are interested in purchasing products such as tanning lotions. Multimedia dissemination of information to the public "is precisely the sort of consumer oriented conduct that is targeted by N.Y. Gen. Bus. Law §§ 349 and 350." *Karlin v. IVF America, Inc.,*

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[11] S & L Vitamins and Sagarin did not address Australian Gold's Section 133 claim in its brief. However, for the same reason that the other state law claims are sufficiently pled, the Section 133 claim should also survive the Motion to Dismiss.

690 N.Y.S. 2d 495 500 (N.Y. App. 1999). In *Karlin*, patients who had unsuccessfully participated in an in vitro fertilization program sued operators of the program under the statute among other things. The defendants alleged that the multimedia dissemination of advertising information "deceptively lured" them into participating in the program. The court held that this conduct was sufficient to state a claim under §§349 and 350. *Id.*

In *Steinmetz,* this court held that dismissal at this early juncture [a motion to dismiss] would be premature because discovery could yield evidence establishing a claim under the New York's Consumer Protection Act. *Steinmetz,* 963 F. Supp. at 1306. In *Zurakov v. Register.com, Inc.,* 760 N.Y.S. 2d 13 (N.Y. App. 2003), a plaintiff who paid an internet business to register the domain name for one year, filed suit under Section 349. After paying the registration fee, the domain name forwarded users to a "Coming Soon" page that contained banner advertisements for register.com and other organizations. These additional services and advertisements appeared to be provided by the person that registered the domain name, instead of being sponsored by register.com. The court held that these facts stated a claim under Section 349. Importantly to the case at hand, the court held that whether reasonable consumers would be misled was a question of fact. Aptly, the court noted that the issue was not whether reasonable consumers would be misled in a material way, "but whether that prospect is enough to create a question of fact . . . or to state a claim." *Id.* at 17.

The Claims set forth specific facts stating a claim upon which relief may be granted under New York's Consumer Protection Laws. The allegations focus on a specific activity by S & L Vitamins and Sagarin — advertising and promoting Australian Gold's products on the internet. S & L Vitamins and Sagarin blanketly assert that there was "simply no way to interpret plaintiff's sale of Australian Gold's merchandise utilizing Australian Gold's trademarks as "deceptive." (Brief at p.18-19). Conveniently, they ignore the specific allegations pertaining to the advertisements of Australian Gold's products and the false and misleading association, or suggestion thereof, between Australian Gold and S & L Vitamins and Sagarin. These actions are sufficient to state claims under the New York law. At the very least, they create factual questions that cannot be decided on the pleadings.

F. Australian Gold is Entitled to Injunctive Relief.

At this time, Australian Gold has not sought a preliminary injunction, but it may do so in the future. Without waiving its right to request a preliminary injunction in the future, one form of relief to which Australian Gold is entitled is injunctive relief, including a permanent injunction. The Lanham Act expressly provides for injunctive relief. *See* 15 U.S.C. §§1114 and 1125(c). Further, injunctive relief is proper to enjoin the continued interference with Australian Gold's contractual relationships and the deceptive acts committed by S & L Vitamins and Sagarin. Thus, the claim for preliminary and permanent injunctions should not be dismissed.

G. The Conspiracy Claim should not be dismissed.

Australian Gold's claims for conspiracy should not be dismissed. Australian Gold has pled that S & L Vitamins and Sagarin have engaged in an unlawful act by conspiring with unknown distributors and other persons to illegally obtain Australian Gold's Products in violation of the Distributorship Agreements. (Claims ¶¶104-105). Australian Gold has stated valid claims for trademark infringement and unfair competition under federal and state law as well as tortious interference with contract and prospective economic advantage. Accordingly, the conspiracy claim cannot be dismissed.

H. S & L Vitamins' Motion for Judgment on the Pleadings Should be Denied.

S & L Vitamins seeks judgment on the pleadings on its request for declaratory judgment that it is not interfering with Australian Gold's contractual distributorship agreements and violating trademark law. It is amazing that S & L Vitamins would even request this relief from the Court in light of the July 25, 2005 pretrial conference where Magistrate Judge Orenstein ordered S & L Vitamins to disclose its suppliers and warned that if disclosure was not made, that it had no case in federal court and an injunction would be entered against S & L Vitamins enjoining it from selling the products on the internet. Magistrate Judge Orenstein made it clear that the pleadings were simply deficient because they failed to disclose S & L Vitamins' sources. Nevertheless, S & L Vitamins still sought declaratory judgment in the complaint and all material facts and allegations which would entitle S & L Vitamins to judgement as a matter of law.

Further, Australian gold denied the allegations, which would entitle S&L Vitamins to relief, such as the fact that products are purchased at retail tanning salons and the use of Australian Gold's trademarks is fair use. (Amended Answer ¶¶ 15, 18, 19, 22, 33-37, 39-40). Therefore, S&L Vitamins is not entitled to judgment in the pleadings and this motion should be denied.

III. CONCLUSION

For all the foregoing reasons, Australian Gold's Claims should not be dismissed and the Motion to Dismiss and for judgement on the pleadings should be denied.

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Respectfully submitted,

MINTZ LEVIN COHEN FERRIS GLOVSKY
AND POPEO, P.C.

Francis J. Earley (FE-7520)
MINTZ LEVIN COHEN FERRIS GLOVSKY
AND POPEO, P.C.
Attorney For Defendant
The Chrysler Center
666 Third Avenue
New York, New York 10017
(212) 935-3000
(212) 983-3115 (Fax)

Michael A. Wukmer, Esq.
Scott Matthews, Esq.
Ice Miller
One American Square, Box 82001
Indianapolis, IN 46282-0200
(317) 236-2179 Phone
(317) 529-5418 Fax

Attorneys for Australian Gold, Inc.

To:
Ronald D. Coleman, Esq.
Coleman Law Firm
410 Park Avenue, 15th Floor
New York, NY 10022
(212) 752-9500
(973) 471-4646

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